

October 21, 2003
10:00 a.m.

(10:06)
1-40

2. Discussion and possible action on Scheduled Meeting Dates: Tuesday, January 20, 2004, Tuesday, April 20, 2004, Tuesday, July 20, 2004 and Tuesday, October 19, 2004

BROWN - Motion to approve – TRONCOSO seconded the motion - UNANIMOUS with WORKMAN excused

(10:07 – 10:08)

1-52

3. General Report by the City Auditor

Mr. Snelding outlined the audits in progress, which include Mr. Smith performing the fieldwork on audits with the Metropolitan Police Department and the Office of Business Development and Mr. Cheng in the reporting phase of an audit of the Northwest Leisure Service Center requested by Council. Councilman Brown requested that the Northwest Leisure Service Center be referred to as Durango Hills in the final report, the name adopted after this audit work was begun. Mr. Snelding agreed that the change would be made.

Mr. Snelding summarized the continuing process of randomly auditing Change and Petty Cash Funds. His office is utilizing audit software to identify anomalies that may indicate improper activities. After identification, the anomaly circumstances are investigated to determine if all unusual situations are explained satisfactorily. The City is continuing to develop a protocol to investigate unauthorized software, pictures, music files, etc. on city computers.

Currently, the bargaining units are reviewing the Fraud Policy. After that review, the policy will be issued. An estimated release date is anticipated at the end of October. Lastly, Mr. Snelding's office is supplying ongoing technical support to the City Marshal's Office regarding financial investigations. Chairman Kerns discussed with Mr. Snelding that the Auditor's Office is a resource to the Marshals in reviewing and compiling information related to financial fraud. Although the City is on a 15-year audit cycle, it is critical to dedicate resources in this manner to make the Fraud Policy work. One auditor has been pulled off performance audit work and assigned to the City Marshal's Office. There is some impact to this reassignment, but the benefit to the City in making the Fraud Policy work will justify the impact. Also, it extends the cycle without throwing the internal audit proceedings off schedule.

There was no further discussion.

(10:08 – 10:11)

1-71

4. Discussion and possible action on Annual Audit Plan FY 2003-2004

The Audit Plan for FY 2003-2004 identifies the Performance Audits selected for the next Fiscal Year. All entities within the organization will be audited on the basis of:

1) risk exposure based on risk analysis; and 2) a fifteen year audit cycle. High-risk items are audited three times during the audit cycle, medium risk twice, and low risk once. This plan allows for substitutions based on Mayor and Council or Audit Committee requests. The case of the YMCA is an example of a Mayor and Council request. The audit plan allows for computer assistance on audits, follow-ups, investigations, cash counts, and other miscellaneous activities. By approving this Plan it allows the City Auditor's Office to initiate these audits without having to return to the Audit Committee to obtain authorization.

There was no further discussion.

BROWN - Motion to approve the plan – WEEKLY seconded the motion – UNANIMOUS with WORKMAN excused

(10:11 – 10:15)

1-213

5. Discussion and possible action on 2001-2002 Annual Audit Recommendation Follow-up
CAO 2600-0203-07

Ms. Mocek stated that the City Auditor's Office completed the third annual follow-up consisting of 312 audit recommendations. These recommendations included 107 carryover items for the period 1999 – 2000, 47 carryover items for the period 2000-2001, and 158 new audit recommendations for the period 2001 - 2002. The objective was to determine the progress made toward implementation of the recommendations. Much of the benefit from audit work is not in the findings reported or the recommendations made, but in their effective resolution. City management is responsible for addressing audit recommendations. This follow-up is a process to help management fulfill this responsibility.

The follow-up was conducted in accordance with Operating Instruction O.I. A. 050 of the City Auditor's Office Operating Instructions Manual and included a determination as to whether or not the audit recommendations had been implemented. City management was asked to identify the status of each recommendation using classifications of complete, partially complete, no progress and no longer applicable. Complete means that the recommendation was implemented or another action was taken to effectively correct the deficiency. Partially complete means the recommendation is not corrected or only a part has been implemented. No action has been taken on items designated as no progress. A recommendation may be no longer applicable due to organizational changes, procedural changes or some other action. In those instances of complete or no longer applicable, the Auditor staff interviews appropriate personnel and obtains and evaluates evidence supporting the classification of the recommendation. For partially complete or no progress, staff interviews management for clarification when necessary. Overall City management has made significant progress toward the implementation of recommendations contained in the various audit reports.

Ms. Mocek outlined the breakdown of audit recommendations within the four categories identified and advised that completion of the audit recommendations has helped the City operate more efficiently and effectively. Where implementation remains incomplete, greater effort should be made to achieve completion. Chairman Kern suggested that the partially complete category be clarified inasmuch as most of those items are substantially complete, and the City should receive credit for those substantial completions. Mr. Snelding added that many partially completed items involve outside issues beyond the control of the department. Greater concern and tracking is focused on items within the no progress category.

Councilman Brown agreed with Chairman Kern and discussed with Mr. Snelding that partially complete items are followed up after three months as well as annually reviewed. Mr. Cimo stressed that, in his experience, a comparison between the City and the private sector reflects well on the City as to the percentage of no progress items. Partially complete items should be calendared and tracked with management in order to project and then reach completion. Chairman Kern pointed out that even private companies are required to disclose. The City should receive credit for its commitment to correcting any weaknesses identified through an audit process.

Mr. Snelding explained that part of the audit process is to identify issues to be brought to the Committee. Recommendations are not removed from annual follow up until the item is completed or the Committee directs that the recommendation be removed. His office is bringing six such issues before the Committee for determination as to whether the audit recommendations should be removed.

Mr. Cimo summarized the audit recommendations to increase the number of digits in the City's long distance security codes as well as increase the frequency such codes are changed. Information Technologies disagreed with the recommendation due to the cost of such security measures. There were also 5,000 existing codes, and the new department procedure is to obtain new codes from Sprint when one is needed. These recommendations are being placed before the Committee for removal inasmuch as the real issue involves reconciliation procedures. Mr. Snelding recommended that both 13.2 and 13.3 be removed from the annual follow up. Councilman Brown discussed with Mr. Marcella that the existing recommendations do nothing to change or decrease the number of anomalies. Chairman Kern verified that the appropriate step would be to conduct a future evaluation of the departmental reconciliation process.

Councilman Brown suggested that clear language be created to give departments necessary guidelines in their reconciliation function. The work scope review may include review of who is provided security access. Mr. Marcella noted that security codes are provided at the request of a director. Mr. Snelding agreed that Information Technologies has addressed the security issue, and testing of the reconciliation process remains to be done. Recently the procedures governing both long distance and cellular use have become much easier to deal with. His office is looking more closely at detective control. Mr. Cimo explained that manual reports were distributed by Finance in the past. Now

there are automated reports on the system with people within each department assigned to process them.

There was no further discussion.

BROWN – Motion to strike 13.2 and 13.3 audit recommendations from the annual follow-up and direct that reconciliation of telephone line charges be addressed as a future audit need – TRONCOSO seconded the motion – UNANIMOUS with WORKMAN excused

Mr. Cimo outlined recommendation 5.3 involving computer lockout after three failed login attempts. An authorized administrator could only then grant access. The issue here also involves security; however, operational staff is present at City Hall and should be able to provide the service. Information Technologies disagreed based on the burden this would create.

Mr. Marcella explained that social engineering or personal knowledge of another person allows someone to access the system by guessing at passwords. The City has already taken steps to harden password security by using six digits and a mix of alpha/numeric upper and lower case. When someone experiences difficulty in accessing the system, they are locked out for 15 minutes. Such lockouts occur an average of 12 to 14 times during a normal workday. Those capable of social engineering would simply move to another machine until they were successful. The exposure is equal. In addition, Information Technologies actually has periods where there is a “dark shop” and no individual is available to reinstate someone who is locked out. Increasing the administrative rights of those staff members in order to reinstate the individual locked out would create additional exposure. Another extremely important aspect and risk would be the access to personal information necessary for verification prior to reinstating the individual.

The City could be devastated due to denial of service by an individual deliberately locking out many or all users and requiring an administrator to be called in to reopen the systems. There have been no known violations as a result of the 15-minute unlock. That makes this the best available business decision. Most lockouts occur as a result of “fat” fingers. There is no data relative to the lockouts that have occurred after hours.

Chairman Kern focused on the critical work performed by every City employee and the impact on morale of being locked out and unable to work for an unpredictable length of time. The disruption to workflow and the 24-hour aspect are important, but the Council should address these policy issues and changes. Councilman Brown confirmed that a system was in place to detect hackers, making the 15-minute lockout adequate. Mr. Marcella noted that 15 minutes is the industry standard. The City receives 20,000 to 25,000 spam e-mails, as well as 200 to 300 viruses, each day that are stopped by the firewall. In addition, the City is hacked one to three times per month.

Mr. Cimo indicated that, under the existing practice, there could be as many as 300 hacking attempts per day that could go undetected. Chairman Kern agreed that the number was alarming but the problem was being addressed by Information Technologies. He suggested that a variance report be generated and provided to department directors. Mr. Marcella replied that the next version of software would include that capability.

BROWN – Motion to treat recommendation 5.3 as complete – TRONCOSO seconded the motion – UNANIMOUS with WORKMAN excused

Mr. Cimo compared recommendation 8.6, limiting access to the network, to the last issue. The normal user would be restricted from the system between 8:00 p.m. and 5:00 a.m. Others may be excepted, but there are tools that would ease implementing such a restriction. It would require after hours Information Technologies staff being granted additional administrative rights. Mr. Marcella reiterated that the limitation would create a burden, especially with those employees working from home, staff changing shifts or those utilizing laptops and palm pilots. Approximately 45 to 50% of City staff work inconsistent hours or after hours. Existing security is sufficient so that such limitations are not warranted. In fact, his Department ran a pilot program with 12 individuals. Within one week, the program demonstrated the limitations were burdensome and prohibitive. Lastly, 9/11 created an awareness that the need for administrative rights in order to grant staff access during emergency situations is a serious problem.

Mr. Cimo responded that administrators would be present during an emergency situation, but providing administrative access would not be a top priority. However, added security must be weighed against other priorities. Mr. Snelding suggested that the security aspect be approached as to who should not be accessing the system during after hours rather than who might need access. Mr. Marcella acknowledged that such restrictions could be managed but might not be warranted given that there have been no known breaches to the system.

Mr. Cimo discussed with Chairman Kern the bifurcation of limited access and remote access. Those with remote access would not be an issue if access were limited. Mr. Marcella indicated that all machines are left on after the users log off to allow for centralized loading of software without visiting individual equipment and system management. Mr. Cimo stressed that the City is second to none with regard to virus control and firewall systems. Chairman Kern commented that the emergency aspects are critical following 9/11.

Chairman Kern recommended that the City reconsider its security options and alternatives and continue to upgrade its systems and procedures. He would not suggest a policy decision on implementation of this audit recommendation, but he would agree with Mr. Cimo as to the protective measures. Mr. Marcella can provide the information to the policymakers as to cost and time prohibitions.

Mr. Snelding recommended that the Committee strike this audit recommendation from the annual follow-up while his staff continues to work with Mr. Marcella on programming

upgrades. Councilman Brown agreed that this issue is substantially complete but should not be completed until more information is available. He requested that additional information regarding scheduling and users be provided by the City Manager prior to striking the audit recommendation or implementing a change. Mr. Marcella added that the original pilot program run involved older systems and may not have been properly designed. However, new software coming forward, Active Directory from Microsoft, will help with better management.

BROWN – Motion to acknowledge that recommendation 8.6 is substantially complete but retain it on the follow-up for review over the next six months to one year as new technology is implemented – TRONCOSO seconded the motion – UNANIMOUS with WORKMAN and WEEKLY excused

Mr. Cimo outlined recommendation 15.1 to limit user access to a single computer station and require special authorization for those who require greater access. However, the Audit Office concurs with the department that there are a number of users who require greater access in order to perform various job functions, such as training. Rather than strike this item as complete, the suggestion is that the item continue to be evaluated. Information has been provided that future enhancements may make it easier for the Department to administer such a limitation. The request is that the Committee move this recommendation to a partially complete status. Mr. Marcella agreed that partially complete was the appropriate status. The purpose of multiple sessions is to accommodate users performing administrative functions. His department supports the City policy that screen savers be invoked within 15 minutes of inactivity, which would also make other machines inaccessible. Additional software would provide better management that is not available at this time. In the process today, from an administrative and multi-user perspective, particularly in light of the use of laptops and palm pilots, greater restrictions should continue to be evaluated.

There was no further discussion.

BROWN – Motion to designate 15.1 as partially complete and to continue to evaluate as future enhancements provide for greater administration of user access limitations – TRONCOSO seconded the motion – UNANIMOUS with WORKMAN and WEEKLY excused

Mr. Cimo outlined recommendation 16.1 to evaluate and document the options available and costs required to relocate the computer room to a non-public building to provide an off-site contingency to keep the City operational in the case of an emergency. Mr. Marcella advised that, although the audit recommendation is cost prohibitive at this time, a contingency site is located approximately eight miles from City Hall and would allow the City to “come live” in the case of a catastrophic event. However, the contingency site is also a public building and could be targeted. In addition, operation of the computer systems and recovery could be much more difficult from the contingency site even though the City would be protected. Chairman Kern verified with Mr. Marcella that an off-site

contingency location for the computer room is part of Information Technologies' future planning.

There was no further discussion.

**BROWN – Motion to strike 16.1 audit recommendation from the annual follow-up
– UNANIMOUS with WORKMAN and WEEKLY excused**

(10:15 – 11:10)

1-263

6. Discussion and possible action on Special Report: Unannounced Petty Cash Counts
CAO 2200-0203-06

Mr. Smith advised that unannounced counts of petty cash funds throughout the City were performed. City departments have varying amounts of petty cash funds (also known as imprest funds) totaling approximately \$9,000 used for incidental departmental expenditures. These funds are replenished as needed by the departments through the City Treasurer's Offices. He reported that over \$102,000 in expenditures were made from the petty cash funds during fiscal year 2002.

The City Treasurer's Office oversees the administration of the petty cash system including the authorization, issuance, replenishment, and tracking of petty cash funds. In addition to the unannounced counts of the petty cash funds, a review of petty cash policies and procedures was completed and the following issues were identified:

1. The City's petty cash policies and procedures are inadequate as they do not address many of the key elements of a proper functioning petty cash system and do not provide adequate guidance to City departments.
2. Petty cash handling procedures and documentation requirements vary between City departments.
3. The City Treasurer's Office petty cash records are deficient as they do not include all existing petty cash funds, the amounts were not all accurately identified, the nature of the funds were not all accurately identified, and the custodians of the funds are not identified.
4. Various control deficiencies in the City's petty cash handling controls and procedures were identified creating opportunities for misuse or theft of City funds. These deficiencies are outlined in the report.
5. Cash safekeeping deficiencies were also noted during the unannounced counts.

Mr. Smith summarized that the report includes recommendations to address these issues. Further, the City Treasurer's Office concurs with the recommendations and will be taking action including the establishment of policies and procedures for standardization of practices between departments and proper controls to safeguard the City's funds.

Mr. Kern commented that the report was very well done and the cooperation between the City Auditor and the City Treasurer's Office represented a good team effort. In response, Mr. Smith indicated that many of the departments, as a result of the audit, challenged themselves as to whether or not the petty cash funds were necessary. In fact, many of the petty cash funds were turned in following the audit report.

Mr. Kern expressed the opinion that there had been remarkable improvements in the audit process throughout the City and changes had been made for the betterment of the City.

There was no further discussion.

BROWN - Motion to accept the report – TRONCOSO seconded the motion – UNANIMOUS with WORKMAN and WEEKLY excused

(11:10 – 11:15)

1-2398

CITIZENS PARTICIPATION:

None.

(11:15)

1-2603

Chairman Kern expressed his appreciation to Mayor Goodman for the time he spent serving on this Committee, along with appreciation to Member Troncoso, Councilman Brown and Member Paul Workman. He welcomed Councilman Weekly, who was attending his first Committee meeting via telephone.

(10:05 – 10:06)

1-1

ADJOURNMENT:

The meeting adjourned at 11:15 a.m. (1-2615)

RESPECTFULLY SUBMITTED,

Vicky Darling, Assistant Deputy City Clerk

RESPECTFULLY SUBMITTED,

Diana Davis, Deputy City Clerk I